

AR69

STERLING CENTRE CORP. (NYSE: SCOR)
10000 WEST PALM BEACH BOULEVARD
SUITE 1000 WEST PALM BEACH, FL 33411
TEL: 561.833.1000 FAX: 561.833.1001
WWW.STERLINGCENTRE.COM

STERLING CENTRE CORP. INC.

2002
ANNUAL REPORT

TORONTO WEST PALM BEACH SCOTTSDALE DALLAS SAN ANTONIO ORLANDO EDMONTON MONTREAL

STERLING CENTRECORP

Winspear Business Reference Library
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

April 14, 2003

Dear Fellow Shareholders:

I am pleased to report to you on Sterling Centrecorp Inc.'s business activities during 2002.

The Sterling Centrecorp merger, and the resulting integration of the staff and operations of the two predecessor companies, has now been successfully completed. The result has been the creation of a dynamic team of real estate service professionals coupled with an entrepreneurial real estate investment group poised to become a growing and dominant force in the North American retail property sector.

Much has been accomplished over the past year. For the year ended December 31, 2002, the Company has reported net income of \$2.7 million. This can be attributed, in large part, to the cashflow coming on stream from the Company's more recent shopping centre investments, and to steps which have been taken to reduce overhead and to dispose of non-core assets.

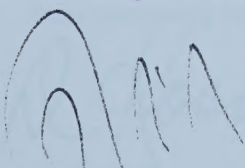
Sterling Centrecorp's real estate service business has seen steady growth throughout the year. The Company's Centrecorp Management Services Division is one of the largest managers of shopping centres and other retail properties in Canada, with approximately 20 million square feet of space under management and administration. There is significant opportunity in the market for further growth in the real estate services side of our business, and we have implemented a strategy to aggressively expand our third party management portfolio.

During the year, consistent with the Company's business plan, non-core investments in its Houston and San Antonio hotels were sold, and the sales proceeds were redeployed into investments in shopping centre assets in Kanata (Ottawa), Dallas and Colorado Springs. More importantly, 2002 has become an important turning point for the Company's investment side of its business. Sterling Centrecorp is now recognized by the real estate investment community as an active participant in the shopping centre acquisition arena with the ability to source and succeed in implementing shopping centre acquisition and value creation initiatives. As a result, the Company now has approximately 20 shopping centres (existing and development sites) under contract and in the pipeline for 2003.

During 2002, Sterling Centrecorp formed a partnership with Vanreal Developments Limited to acquire malls in Canada, with an emphasis on those with inherent upside and value creation opportunities through remerchandising and redevelopment. The first acquisition by the partnership was The Hazeldean Mall in Kanata, which is currently under redevelopment and is being expanded from 187,000 square feet to approximately 225,000. A number of additional properties are currently under contract and it is expected that the partnership's portfolio will grow significantly over the next few years.

The groundwork has now been established, and Sterling Centrecorp is now on track to becoming recognized as one of North America's leading investment and real estate services companies in the shopping centre/retail sector. We look forward to reporting to you further on our progress throughout the coming year. We have enclosed, together with your Annual Report, a copy of our Centrecorp leasing brochure which should provide shareholders with an insight into the scope of our real estate services business.

I would like to take this opportunity to sincerely thank our Board of Directors, Co-Chairmen and every member of the Sterling Centrecorp team for their hard work and dedication throughout the year.



Robert S. Green
President & C.O.O.

STERLING CENTRECORP INC.
2851 JOHN STREET, MARKHAM, ONTARIO L3R 5R7
PHONE (905) 477-9200 • FACSIMILE (905) 477-7390

April 14, 2003

Dear Fellow Shareholders:

The year 2002 has been a very gratifying year because we have started to see the fruition of many of our initiatives. The most important manifestation of our efforts is that the Company in 2002 generated a net income of \$2.7 Million. The management team is clearly focused on a business plan, which is best articulated by our mission statement:

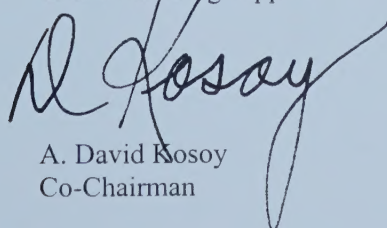
"To become recognized as one of North America's leading investment and real estate services companies in the shopping centre/retail sector. Sterling Centrecorp will expand its owned portfolio by seeking out both entrepreneurial and stable retail investment opportunities, and will further increase corporate cash flow by expanding its real estate services business. Both of these initiatives will create opportunities for profitable growth and value for the Company's, shareholders, investment partners and employees."

Highlights of the Year:

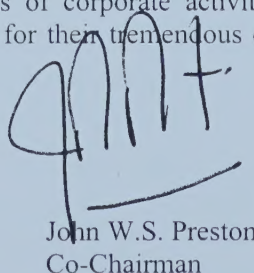
- In keeping with our business plan to concentrate only on retail, we sold both the 'Best Western' hotel located in San Antonio, Texas, and the Hampton Inn, in Houston, Texas.
- Centrecorp continues to perform extremely well. We have recently undertaken initiatives to aggressively expand the third party side of the business.
- In 2000, your Company did not own any retail property. As of the writing of this letter, the Company now has interests in 13 shopping centres/development sites, and has approximately 20 additional centres/development opportunities under contract.
- The Company has entered into a partnership arrangement with Vanreal Developments Limited to acquire Malls in smaller Canadian markets. One centre in Kanata, Ontario, was acquired, which is performing exceptionally well, and two other centres are presently under contract.
- Our land division in Orlando, Florida, is doing extremely well and continues to meet or exceed all projections.
- Westover Hills, our largest commercial land holding in San Antonio, Texas, had a very successful year. A highway is under construction through the middle of the project. Toyota recently announced that it was building a major plant in San Antonio.

All in all, we are extremely pleased with the progress which the Company has made over the year. We continue to make further initiatives which will act as new catalysts for continued growth and profitability.

In conclusion, we would like to thank the members of our Board of Directors who have been so diligent in their efforts to help management in all areas of corporate activities. We would also like to genuinely acknowledge and thank all of our co-workers for their tremendous efforts in 2002, and our shareholders for their continuing support.



A. David Kosoy
Co-Chairman



John W.S. Preston
Co-Chairman

STERLING CENTRE CORP INC.
2851 JOHN STREET, MARKHAM, ONTARIO L3R 5R7
PHONE (905) 477-9200 • FACSIMILE (905) 477-7390

STERLING CENTRECORP INC.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion should be read in conjunction with the audited financial statements for the years ended December 31, 2002 and 2001 and the notes thereto.

The Company

Sterling Centrecorp Inc. (the "Company") is a North American real estate investment and management services company specializing in the retail property sector, which is publicly traded on the Toronto Stock Exchange. The Company specializes in acquisition, development, re-development, management, leasing and related services for real estate assets on behalf of its investors, partners and third party clients. Sterling, through its North American platform, uncovers and secures real estate opportunities and then aligns itself with strategic financial partners to maximize returns for all parties. The Company's portfolio under management and administration currently includes approximately 18 million square feet of retail and other commercial space. Sterling Centrecorp is poised to achieve significant growth in both its investment operations and real estate services and to realize superior financial returns on behalf of its clients, partners and shareholders.

Overview of the Business

Management remains committed to its focus on profitability, growth and the creation of long-term shareholder value through the acquisition, development and/or repositioning of real estate investments and interests that are accretive to earnings and cash flow. Over one year has passed since the acquisition of the Centrecorp group of companies and the integration of operations is now complete. Management's aggressive restructuring and disposition of temporary investments and other non-core business assets, such as hotels, will continue, with proceeds from dispositions being redeployed into core business operations. The Company will continue to use both private placement and public market financing to achieve future growth with geographic diversification.

As of December 31, 2002, the Company had the following joint venture interests:

	<u>Type of Business</u>	<u>Interest Acquired</u>	<u>Ownership %</u>
Hazeldean Mall	Retail Mall	2002	50
Northwest Crossing	Retail Centre	2002	50
Sterling Development Joint Venture	Commercial Real Estate Development	2002	50
Protea Real Estate Joint Venture	Property Management	2001	65
Quebec Joint Venture	Property Management	2001	50
Northmil Plaza	Retail Centre	2001	25
Westside Market	Retail Centre	2001	50
Westland Promenade	Retail Centre	2001	25
Abacoa Plaza *	Retail Centre	2001	50
Grand Preserve at Cypress Lakes	Residential Land Development	2000	50
The Reserve at Lake Mary	Residential Land Development	2000	50

* Subject to a 50 percent non-controlling interest therein.

Real Estate Services

The Company provides property management, leasing, development, re-development, construction management and related real estate services to its third party clients, joint-venture partners and for the benefit of its own real estate interests.

Asset Dispositions

Management remains committed to the Company's strategy of disposing of its temporary investments, assets that are deemed non-core and assets that have reached full value. This capital can then be redeployed into core business segments.

RESULTS OF OPERATIONS

For the year ended December 31, 2002, the Company recorded net income of \$2.7 million and net income per share of \$0.01 compared to a net loss of \$9.5 million and a loss of \$0.34 per share for the year ended December 31, 2001.

The per share amounts at December 31, 2002 include the effect of the accretion related to the equity component of the Company's convertible debentures in the amount of \$2.3 million (2001 - \$2.1 million) or \$0.06 (2001- \$0.06) per share.

Mortgages, Notes and Investments

The balance of mortgages, notes and investments held by the Company decreased to \$18.2 million at December 31, 2002 from \$25.2 million at December 31, 2001. The decrease is partly attributable to the repayment of a \$1.2 million note in the second quarter. In addition, in September and November 2002, the Company completed the sale of two of its seven temporary hotel investments, which were carried at a combined \$7.9 million on the Company's books. These decreases were offset by three new promissory notes issued in the third and fourth quarters of 2002 for a total of \$2.6 million. The remaining change is due to timing, normal repayments and the results of the Company's interest in its equity investments.

Included in mortgages, notes and investments are the Company's interests in the following investments:

	<u>Location</u>	<u>Ownership %</u>	<u>Type</u>
Westover Hills Development	San Antonio, TX	36.75	Land Development
Live Oak Reserve	Oveido, FL	23.60	Land Development

Development Property

Included in development property is property held as inventory, property currently under development and property to be developed. These include the Company's interests in the following properties:

	<u>Location</u>	<u>Type</u>	<u>Remaining Acres</u>	<u>Ownership %</u>
Grand Preserve at Cypress Lakes	Orlando, FL	Residential Land Development	563 Acres	50
The Reserve at Lake Mary	Lake Mary, FL	Residential Land Development	9 Acres	50
Thornbridge Crossing	North Richland Hills, TX	Shopping Centre Development	8.89 Acres	100
Grand Parkway and Fry	Houston, TX	Shopping Centre Development	7.39 Acres	100
Palmer & Powers	Colorado Springs, CO	Shopping Centre Development	15.04 Acres	100

Revenue Producing Property

Included in revenue producing property is land, buildings and improvements (net of depreciation and amortization), and deferred leasing costs associated with the following assets:

	<u>Location</u>	<u>Ownership %</u>	<u>Square Feet</u>
Northwest Crossing	Dallas, TX	50	33,366
Hazeldean Mall	Kanata, ON	50	187,000
Abacoa Plaza *	Jupiter, FL	50	62,270
Northmil Plaza	Palm Beach Gardens, FL	25	90,322
Westside Market	Fort Worth, TX	50	55,057
Westland Promenade	Hialeah, FL	25	328,740

* Subject to a 50 percent non-controlling interest therein.

Revenue producing property also includes certain property under development relating to expansion and/or redevelopment.

Management Contracts

Management contracts at December 31, 2002, net of accumulated amortization, were carried at \$4.9 million compared to \$8.3 million at December 31, 2001. These contracts were the principal assets of Centrecorp and the Sterling Companies of Palm Beach, Inc., which were acquired in 2001 and 2000, respectively. The decrease in the carrying amount of these contracts represents amortization in the normal course of business.

Amounts Receivable

Amounts receivable increased to \$3.9 million at December 31, 2002 from \$2.2 million at December 31, 2001. The increase in receivables is primarily the result of third party management and leasing fees due to the Company.

Prepays and Other Assets

Prepays and other assets increased to \$2.5 million at December 31, 2002 from \$2.0 million at December 31, 2001. The increase is primarily attributable to deferred costs related to the US\$11.0 million secured redeemable debentures issued in 2002. The debenture costs are being amortized over the term of the debentures, which is six years.

Capital Assets

Capital assets decreased to \$2.1 million at December 31, 2002 compared to \$2.3 million at December 31, 2001. The decrease is primarily attributable to asset depreciation in the normal course of business.

Debt on Real Estate

Debt on real estate increased \$16.3 million to \$64.8 million at December 31, 2002 compared to \$48.5 million at December 31, 2001. This increase is attributable to the issuance of the US\$11.0 million secured debentures, a bank note issued for \$6.2 million in connection with the Hazeldean Mall acquisition, debt of \$4.6 million issued in connection with two separate properties which are to be developed, debt of \$1.9 million issued in the connection with the Northwest Crossing acquisition, and a \$1.0 million increase in debt related to the construction of additional phases on two retail shopping centers. The increase in outstanding debt was partly offset by the full repayment of thirteen separate notes for a collective reduction in debt of \$8.7 million and the redemption of US\$1.0 million of secured redeemable debentures, along with normal principal repayments made during the year.

The Company's ratio of floating rate debt to total debt at December 31, 2002 was 41 percent (2001 – 40 percent).

Accounts Payable and Accrued Liabilities

The balance of accounts payable and accrued liabilities increased to \$7.8 million at December 31, 2002 from \$5.9 million at December 31, 2001. The increase is partly attributable to an estimated US\$600,000 commitment to construct a road in connection with property sold in March 2002 at the Company's Colorado Springs project. The remaining increase is due to general increases in activity and from timing differences.

Bank Indebtedness

The decrease in bank indebtedness at December 31, 2002 to \$Nil from \$755,000 at December 31, 2001 relates solely to the repayment of the outstanding balance on the Company's operating line. At December 31, 2002, the Company had no operating lines of credit.

Future Income Tax Liabilities

The future income tax liability arises from the tax liability that was set up in connection with the Centrecorp purchase. The Company and its subsidiaries have significant unrecorded operating and capital losses from prior periods to offset current year taxable income.

Non-Controlling Interest

Non-controlling interest has decreased to \$777,000 at December 31, 2002 from \$796,000 at December 31, 2001. Included in non-controlling interest are interests held by other parties in the following subsidiaries of the Company:

	<u>Ownership %</u>	<u>Type of Business</u>
Sterling Penndevco, LLC	51	Preferred developer for CVS Pharmacy, Inc.
SC-Abacoa Associates	50	Shopping centre located in Jupiter, Florida
Sterling USA, Inc. *	100	Real estate investment in the U.S.

* An unconsolidated wholly owned subsidiary of the Company owns preferred shares in this entity.

As the Company effectively controls the operations and management of the above subsidiaries, 100 percent of the assets, liabilities, revenues and expenses have been consolidated and the non-controlling interests have been recorded in the financial statements of the Company.

Shareholders' Equity

The Canadian dollar continues to fluctuate significantly against the U.S. dollar. These fluctuations resulted in a year to date net decrease in the cumulative translation adjustment to \$9.6 million at December 31, 2002 from \$9.9 million at December 31, 2001.

Outstanding Share Data

The Company has the following outstanding classes and series of securities as of December 31, 2002:

- (a) Common shares: 35,775,984
- (b) \$25,819,000 Unsecured Convertible Subordinated Debentures bearing interest at 7.25 percent and maturing December 31, 2004. At any time from December 31, 2002 to maturity, the Company may, at its option, elect to satisfy the obligation to repay the debentures by issuing common shares at 95 percent of the then market price of the shares.
- (c) Stock Options: Options to purchase 6,986,125 common shares of the Company are outstanding and can be exercised at various dates up to September 5, 2007.
- (d) Stock purchase warrants – Series I and Series II. In connection with the purchase of all the outstanding limited partnership units of the Preferred Equity hotel portfolio, the Company issued 900,000 stock purchase warrants on July 1, 2001; 720,000 Series I warrants exercisable at \$1.50 per share and 180,000 Series II warrants exercisable at \$2.00 per share. Each warrant represents the right to purchase one share of the

Company's common stock, until the expiration date of June 30, 2006. As of December 31, 2002, no warrants had been exercised.

- (e) Stock purchase warrants – Series 2002-1A and 1B. In connection with the issuance of an aggregate of US\$11.0 million secured redeemable debentures, the Company issued 5.5 million stock purchase warrants on April 5, 2002 and 5.5 million stock purchase warrants on July 17, 2002; exercisable at \$1.50 per share. Each warrant represents the right to purchase one share of the Company's common stock, until the expiration date of April 5, 2007. As of December 31, 2002, no warrants had been exercised.

Real Estate Services

Revenues from real estate services increased \$1.3 million to \$16.7 million for the year ended December 31, 2002 as compared to \$15.4 million for the year ended December 31, 2001. The increase is primarily the result of a full year of Centrecorp's operations in 2002 compared to only ten months of activity in the prior year as Centrecorp was acquired in March 2001.

Development

Development operating income, which represents development sales net of the related cost of sales, including commissions, was \$1.4 million and \$349,000 for the years ended December 31, 2002 and 2001, respectively. Included in development income for the year ended December 31, 2002 is a gain of US\$1.0 million related to the sale of 20.68 acres of land in the Company's Colorado Springs project, which was acquired in March 2002 pursuant to certain options acquired in 2001. The remaining income is directly attributable to the Company's interests in the Grand Preserve at Cypress Lakes and the Reserve at Lake Mary.

Rental

Rental operating income, which is calculated as rental revenue less rental operating expenses and realty taxes, was \$1.3 million and \$297,000 for the years ended December 31, 2002 and December 31, 2001, respectively. This increase is attributable to a full year of income earned on acquisitions made in the third and fourth quarters of 2001, including interests in Abacoa Plaza, Northmil Plaza, Westland Promenade and Westside Market, plus the income earned from the acquisitions of Hazeldean Mall in September 2002 and Northwest Crossing in October 2002.

Interest and Investment Income

Interest and investment income increased \$4.4 million to \$6.2 million for the year ended December 31, 2002 compared to \$1.8 million for the year ended December 31, 2001. This increase is attributable to distributions received in connection with the sale of two of the Company's seven temporary hotel investments, one of which sold in September 2002 and the other in November 2002. The distributions resulting from these investments of approximately \$3.9 million are partly offset by the effects of the repayment to the Company of an apartment loan in the first quarter of 2001 in the amount of \$653,000 and a note on an office building in the amount of \$170,000 that was paid off in August 2001. The remaining difference relates to normal activity and timing differences.

Corporate Expense

Corporate expense at December 31, 2002 was \$4.8 million (2001 - \$4.9 million). Included in corporate expense for the year were due diligence expenses of approximately \$616,000, and general administrative and salary expenses.

Interest Expense

Interest expense of \$3.7 million and \$2.4 million was incurred during the years ended December 31, 2002 and 2001, respectively. The primary reason for this increase was the new debt on acquisitions of property in 2001 and 2002, and the issuance of the US\$11 million secured redeemable debentures in 2002.

Depreciation and Amortization

Depreciation and amortization expense for the year ended December 31, 2002 was \$4.6 million (2001 - \$3.9 million). Included in depreciation and amortization expense for years ended December 31, 2002 and December 31, 2001 is \$3.4 million and \$3.1 million, respectively, related to the amortization of management contract assets which were set up in conjunction with the Centrecorp purchase in 2001 and the Sterling Companies of Palm Beach, Inc. purchase in 2000. Other current period increases are attributable to a full year of depreciation on the acquisitions of Westside Market, Westland Promenade, Abacoa Plaza and Northmil Plaza which were acquired in the third and fourth quarters of 2001 and depreciation recorded in respect of Hazeldean Mall and Northwest Crossing, which were acquired in the third and fourth quarters of 2002.

Income Taxes

The Company's income is subject to income tax at statutory rates, which has been offset by the utilization of losses from prior years. Income taxes include an income tax benefit of \$956,000 and \$1.8 million for the years ended December 31, 2002 and December 31, 2001, respectively, which is related to the reversal of the future income tax liability that was set up in connection with the Centrecorp purchase. The Company and its subsidiaries have significant unrecorded operating and capital losses from prior periods to offset current period and future taxable earnings.

Goodwill Charges

Goodwill was initially recorded in connection with the acquisition of Centrecorp and was reduced to a carrying value of nil as at December 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

The net increase in cash flow from all sources was \$14.7 million and \$3.1 million for the years ended December 31, 2002 and December 31, 2001, respectively. This increase for the year ended December 31, 2002 is attributable to the full year impact of acquisitions made during the year ended December 31, 2001, the cash received from subscriptions for the secured redeemable debentures and warrants described in Note 10 to the consolidated financial statements, distributions received in connection with the sale of two of the Company's temporary hotel investments, and from repayments made on the Company's mortgages and notes receivable.

The Company's principal requirements for capital relate to the acquisition and development of commercial real estate. To date, the Company's principal sources of financing have been by way of mortgage financing and notes. The Company has also successfully syndicated ownership in certain assets to free up capital, while maintaining management, development and leasing of the properties. If necessary, additional cash could be generated by the sale of income producing property, land held for development and development properties.

As at December 31, 2002, the Company had total assets of \$108.0 million and 63 percent debt in its capital structure. It is important to note that this ratio is being calculated based on book value or historical cost and does not take into account the aggregate fair market value of the Company's assets, which management believes is in excess of book value.

The Company believes that its existing resources, including cash on hand and its cash flow from operations, and its ability to refinance maturing debt, together with its ability to raise additional equity financing on a project by project basis as required, will be sufficient to fund its capital requirements over the coming year.

RISK MANAGEMENT

The Company's performance is subject to certain risks inherent in real estate management, development and ownership. The real estate business is competitive and cyclical in nature. Numerous other developers, managers and owners of real estate in general, and retail properties in particular, compete with the Company. The Company derives its revenue from the following business segments in markets throughout North America: real estate services, development, rental, and interest and investment income.

Real estate services revenue is primarily generated from the Company's property management and leasing services. The profitability of this business is subject to potential margin pressure from competition and the loss of real estate services contracts. During the year ended December 31, 2002, the Company earned 46 percent of its real estate services revenue from one client. The Company is confident that as these and other real estate services contracts come due, it will be successful in its negotiation to procure additional real estate service contracts and/or to continue providing services to existing clients into the future. In addition, the Company's real estate service business has and will continue to grow through the ongoing acquisition of properties by investment partnerships which are managed by the Company and its affiliates. Revenues generated from leasing are contingent on the supply of space and the demand for real estate in

local markets, which affect the attractiveness of properties to current and prospective tenants, and thus the Company's ability to lease vacant space and renew existing tenancies at viable effective net rents. However, the provision of real estate services is significantly less capital intensive than property ownership and provides a stable fee-based income. The infrastructure required to provide large-scale property real estate services is a barrier to entry for others, giving the Company a competitive advantage. The Company is cognizant of these trends and allocates its resources accordingly in order to fulfill its responsibilities to each client and to generate the maximum return to the Company.

Development projects are entered into on a selective basis in markets where the Company has a significant presence and knowledge base from which to draw. These projects are subject to constraints with respect to the Company's ability to obtain the required permits, financing and tenants or prospective buyers. Generally, the Company will bring an equity partner or partners into a project to minimize its exposure on any one project, while maintaining control of the development and real estate services activities. The Company also mitigates its risk by obtaining financing prior to finalizing a purchase and by negotiating leases and contracts prior to the construction or development of a project.

Rental and investment income is earned on the Company's interest in other real estate activities including, but not limited to, real estate ownership and lending activities. The Company's property and investment portfolio is diversified from both a geographic and tenant base perspective. The Company's growth strategy will continue this diversification.

Certain significant expenditures including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made regardless of whether or not a property is producing sufficient income to service these expenses. If the Company were unable or unwilling to meet mortgage payments on a property, losses could be sustained as a result of the mortgagee's or partner's exercise of its rights of foreclosure or sale. Real estate is relatively illiquid and will tend to limit the Company's ability to vary its portfolio promptly in response to changing economic or investment conditions.

Also, upon expiry of the term of financing on any particular property owned by the Company, refinancing on a conventional loan basis may not be available in the amounts required or may be available only on terms less favorable than existing financing. This will be dependent upon the economic circumstances prevailing at such time. The Company mitigates this risk by utilizing fixed and variable interest rates and extending the term of its notes.

As an owner and manager of real property, the Company is subject to various United States and Canadian federal, provincial, state and municipal laws relating to environmental matters. These laws could hold the Company liable for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect the Company's ability to sell its real estate or to borrow using real estate as collateral and could potentially result in claims or other proceedings against the Company. The Company is not aware of any material non-compliance with environmental laws at any of its properties. The Company has been notified by the United States Environmental Protection Agency of a potential

claim for remediation costs at the Lava Cap Mine site in Nevada City, California. The Company is disputing the jurisdiction, applicability and enforceability of the claim.

LEGAL PROCEEDINGS

Certain claims and lawsuits have arisen against the Company in its normal course of business. The Company believes that such claims and lawsuits will not have a material adverse effect on the Company's financial position, cash flow, or results of operation.

OUTLOOK

The Company will continue to expand its real estate services business, and to acquire interests in income producing and development properties that are accretive to earnings and cash flow.

A handwritten signature in black ink that reads "David J. Shreeve". The signature is written in a cursive, flowing style.

David J. Shreeve
Vice President
Chief Financial Officer

February 21, 2003

Report of Management

The consolidated financial statements of Sterling Centrecorp Inc. have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of the information contained in these consolidated financial statements and other sections of this Annual Report. The Company maintains appropriate systems of internal control, policies, and procedures which provide management with the reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for preparation of financial statements.

The Company's independent auditors, Deloitte & Touche, LLP, have been appointed by the shareholders to express their professional opinion on the fairness of these consolidated financial statements.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee which is comprised of outside directors. This committee reviews the consolidated financial statements and reports to the Board of Directors. The auditors have full and direct access to the Audit Committee.



A. David Kosoy
Co-Chairman
Co-Chief Executive Officer



John W.S. Preston
Co-Chairman
Co-Chief Executive Officer



David J. Shreeve
Vice President
Chief Financial Officer

February 21, 2003

Financial Statements of

STERLING CENTRECORP INC.

December 31, 2002 and 2001

Auditors' Report

To the Shareholders of Sterling Centrecorp Inc.

We have audited the consolidated balance sheets of Sterling Centrecorp Inc. as at December 31, 2002 and 2001 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
February 7, 2003

STERLING CENTRECORP INC.

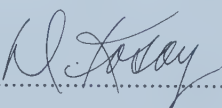
Consolidated Balance Sheets

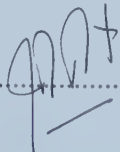
December 31, 2002 and 2001

	2002	2001
ASSETS		
REAL ESTATE		
Revenue producing property (Note 4)	\$ 35,917,694	\$ 24,897,325
Development property (Note 5)	22,626,454	21,790,297
Mortgages, notes and investments (Note 6)	18,240,363	25,158,071
Management contracts (Note 7)	4,889,030	8,332,032
	81,673,541	80,177,725
CASH AND CASH EQUIVALENTS	17,895,135	3,204,816
AMOUNTS RECEIVABLE	3,867,626	2,182,677
PREPAIDS AND OTHER ASSETS (Note 8)	2,465,934	2,049,480
CAPITAL ASSETS (Note 9)	2,104,682	2,317,905
	\$ 108,006,918	\$ 89,932,603
LIABILITIES		
DEBT ON REAL ESTATE (Note 10)	\$ 64,782,703	\$ 48,499,765
LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES (Note 11)	3,358,106	4,832,978
BANK INDEBTEDNESS (Note 12)	-	755,324
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	7,774,696	5,928,658
FUTURE INCOME TAX LIABILITIES	1,152,239	2,108,469
DEFERRED REVENUE	58,440	146,937
	77,126,184	62,272,131
NON-CONTROLLING INTEREST (Note 13)	777,134	795,884
SHAREHOLDERS' EQUITY (Note 14)	30,103,600	26,864,588

COMMITMENTS AND CONTINGENCIES (Note 22)

APPROVED ON BEHALF OF THE BOARD

..... Director

..... Director

STERLING CENTRECORP INC.
Consolidated Statements of Operations
Years ended December 31, 2002 and 2001

	2002	2001
REVENUE		
Real estate services (Note 15)	\$ 16,673,879	\$ 15,446,250
Development	14,104,885	7,739,174
Rental	4,493,518	1,299,488
Interest and investment income (Note 16)	6,228,518	1,777,883
	41,500,800	26,262,795
EXPENSES		
Real estate services	12,992,395	12,102,268
Development	12,690,834	7,390,410
Rental	3,181,879	1,002,610
Corporate	4,755,342	4,917,240
	33,620,450	25,412,528
INCOME FROM OPERATIONS	7,880,350	850,267
Interest expense (Note 17)	3,690,310	2,414,203
Depreciation and amortization	4,559,643	3,923,466
	8,249,953	6,337,669
LOSS BEFORE THE UNDERNOTED	(369,603)	(5,487,402)
(Loss) gain on sale of assets	(2,377)	30,074
Gain on early retirement of debt	-	1,621,740
Recovery of (provision for) impaired loans and other assets	2,362,205	(3,284,349)
INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST, INCOME TAXES AND GOODWILL CHARGES	1,990,225	(7,119,937)
Non-controlling interest	9,345	(130,551)
INCOME (LOSS) BEFORE INCOME TAXES AND GOODWILL CHARGES	1,980,880	(6,989,386)
Income taxes (Note 20)	(707,577)	(1,408,379)
INCOME (LOSS) BEFORE GOODWILL CHARGES	2,688,457	(5,581,007)
Goodwill charges	-	3,925,181
NET INCOME (LOSS)	\$ 2,688,457	\$ (9,506,188)
BASIC AND DILUTED INCOME (LOSS) PER SHARE BEFORE GOODWILL CHARGES (Note 21)	\$ 0.01	\$ (0.22)
BASIC AND DILUTED GOODWILL CHARGES PER SHARE (Note 21)	\$ -	\$ 0.12
BASIC AND DILUTED INCOME (LOSS) PER SHARE (Note 21)	\$ 0.01	\$ (0.34)

STERLING CENTRECORP INC.**Consolidated Statements of Deficit****Years ended December 31, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
DEFICIT, BEGINNING OF YEAR	\$ (83,382,280)	\$ (71,822,284)
NET INCOME (LOSS)	2,688,457	(9,506,188)
ACCRETION OF EQUITY COMPONENT OF CONVERTIBLE DEBENTURES, NET OF TAX OF NIL IN 2002 AND 2001 (Note 11)	(2,320,349)	(2,053,808)
DEFICIT, END OF YEAR	<u>\$ (83,014,172)</u>	<u>\$ (83,382,280)</u>

STERLING CENTRECORP INC.
Consolidated Statements of Cash Flows
Years ended December 31, 2002 and 2001

	2002	2001
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net income (loss)	\$ 2,688,457	\$(9,506,188)
Items not involving cash		
Depreciation and amortization	4,559,643	3,923,466
Loss (gain) on sale of assets	2,377	(30,074)
Gain on early retirement of debt	-	(1,621,740)
(Recovery of) provision for impaired loans and other assets	(2,362,205)	3,284,349
Non-controlling interest	9,345	(130,551)
Future income taxes	(956,230)	(1,811,490)
Goodwill charges	-	3,925,181
Loss from equity-accounted investments	233,433	2,019,066
	4,174,820	52,019
Net change in development inventory	2,964,409	6,127,591
Net change in other non-cash operating assets and liabilities	(2,190,611)	(1,834,825)
	4,948,618	4,344,785
INVESTING		
Investment in mortgages, notes and investments	(12,482,952)	(2,015,163)
Repayment of mortgages, notes and investments	20,784,364	16,347,691
Additions to revenue producing properties	(10,561,888)	(5,340,793)
Additions to property to be developed	(1,309,340)	(6,832,248)
Purchase of capital and other assets	(361,963)	(696,295)
Proceeds from disposals of capital and other assets	15,668	-
	(3,916,111)	1,463,192
FINANCING		
Proceeds from debt on real estate	28,748,541	10,974,199
Repayment of debt on real estate	(13,666,270)	(13,041,063)
Repayment of convertible debentures	(1,474,872)	(1,417,950)
Bank indebtedness	(755,324)	(178,790)
Normal course repurchase of shares (Note 14 (a))	(758,863)	-
Proceeds from issuance of stock warrants	1,564,600	-
Common shares issued for cash (Note 3 (m))	-	990,650
	13,657,812	(2,672,954)
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,690,319	3,135,023
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,204,816	69,793
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 17,895,135	\$ 3,204,816
SUPPLEMENTARY INFORMATION		
Interest paid	\$ 3,394,832	\$ 2,175,040
Income taxes paid	\$ 78,542	\$ 79,507

STERLING CENTRECORP INC.

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

1. BUSINESS OPERATIONS

The Company is incorporated under the laws of the Province of Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies and its standards of financial disclosure are in accordance with the recommendations of The Canadian Institute of Chartered Accountants and are substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies.

a) Basis of presentation

The consolidated financial statements include the accounts of the Company, its subsidiaries and its proportionate share of the assets, liabilities, revenues and expenses of joint ventures. Investments in which the Company has significant influence are accounted for by the equity method. Subsidiaries that are temporary investments and investments where the Company does not exercise significant influence are accounted for using the cost method. All significant intercompany transactions, receivables and payables have been eliminated on consolidation.

b) Mortgages and notes

Mortgages and notes receivable are carried at the lower of cost and net realizable value. Provisions for estimated losses, legal and other collection costs are charged to income.

Mortgages and notes are generally considered to be impaired when the Company no longer has reasonable assurance of timely collection of the full amount of principal and interest as a result of a deterioration of credit quality. Impaired loans are carried at their estimated realizable amounts determined by discounting the expected future cash flow at the interest rates inherent in the loans. When the future cash flows cannot be estimated with reasonable reliability, impaired loans are carried at the fair value of the underlying security, net of estimated costs of realization. An allowance for impairment is determined by reference to specific impaired loans. General allowances are also established by management based on previous experience and current economic conditions.

Any changes in the estimated realizable amount of mortgages and notes receivable or the fair value of the underlying security over time are reported as a charge or credit to the provision for losses on impaired loans. Recognition of interest income ceases at the point when the loan is identified as impaired. Subsequent cash receipts on impaired loans are not recorded as income until prior write-offs and allowances have been recovered and there is no further doubt as to the collectibility of the principal amount.

c) Investments

Investments accounted for using the cost method are carried at the lower of cost and net realizable value with any writedowns charged to income.

STERLING CENTRECORP INC.

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Development property

Fully or partially developed inventory is carried at the lower of cost and estimated net realizable value. Property to be developed is carried at the lower of cost and economic value. Cost includes initial acquisition costs, direct development costs, property taxes and interest.

e) Revenue producing property

Revenue producing property is carried at the lower of cost less accumulated depreciation and estimated net recoverable amount. Cost includes the original cost of the property, due diligence costs and other acquisition-related costs. Net recoverable amount represents the undiscounted estimated future net cash flows expected to be received from the ongoing use of the properties plus its residual value.

Depreciation on buildings and improvements is recorded on a 39-year straight-line basis.

Leasing costs, including tenant inducements and leasing commissions, are deferred and amortized on a straight-line basis over the term of the respective leases.

Revenue producing property under development is carried at the lower of cost and economic value. Cost includes initial acquisition costs, direct development costs, property taxes, interest, and operating revenues and expenses during the period of development. Revenues and expenses of property under development is recognized in income once the property is substantially complete and a satisfactory level of occupancy has been achieved, subject to a reasonable maximum period of time.

f) Management contracts

Management contracts are carried at the lower of cost less accumulated amortization and estimated net recoverable amount. Management contracts are amortized over the respective terms of the related contracts, but in no case longer than 5 years.

g) Cash and cash equivalents

Cash equivalents consist of short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

h) Financing costs

Financing costs are deferred and amortized to interest expense over the terms of the respective indebtedness.

Costs incurred in connection with the issuance of share capital of the Company are offset against the funds raised from the offering.

STERLING CENTRECORP INC.
Notes to the Consolidated Financial Statements
December 31, 2002 and 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Capital assets

Capital assets are recorded at cost. Depreciation and amortization are recorded at the following rates:

Building and improvements	straight-line basis over 39 years
Furniture, fixtures and equipment	straight-line basis over 5 to 7 years
Software	straight-line basis over 5 years
Automobile	straight-line basis over 5 years

j) Revenue recognition

Real estate services revenue, which includes property management fees, leasing fees, development and construction fees, and asset management fees, is recognized on an accrual basis when earned.

Development revenue, which consists of sales of developed residential lots and commercial land, is recognized as sales occur when a minimum percentage of the sales price is received in cash.

Rental revenue is recognized in accordance with tenant lease agreements. In the case where a tenant pays a lump sum lease termination fee in order to be released from future lease obligations, this payment is recognized in rental revenue immediately. Rental revenue recorded in respect of leases that provide a free rent concession is recorded on a straight-line basis based on the total amount of cash to be received over the term of the lease.

Interest and investment income, which includes interest on mortgages and notes receivable, income from equity investments and profit participation, is recognized on an accrual basis as earned. Placement fees earned for arranging third party loans are recognized when funds are committed to by the third party and advanced.

k) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at the exchange rate in effect at the date the transaction occurred. Gains and losses arising from translation of currency transactions are included in net earnings for the period. Unrealized gains and losses on long-term monetary items with an ascertainable life extending beyond one year are also included in net earnings for the period.

The Company has self-sustaining subsidiaries in the United States, which are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at average rates for the period. Gains and losses arising from the translation of these operations are shown in a separate component of shareholders' equity as a cumulative currency translation adjustment. Movements in the cumulative currency translation adjustment account during the period result primarily from changes in the value of the Canadian dollar in comparison to the United States dollar.

STERLING CENTRECORP INC.

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Income taxes

The Company accounts for income taxes using the liability method. Under this method, future income tax assets and liabilities are calculated based on (i) the temporary differences between the carrying values and the tax bases of assets and liabilities and (ii) unused income tax losses, and measured using substantively enacted income tax rates and laws that are expected to apply in the future when the temporary differences reverse and the income tax losses are used. Future income tax assets are recognized only to the extent that it is more likely than not that the benefit will be realized.

m) Stock-based compensation plans

The Company has two stock-based compensation plans, which are described in Note 14. Effective January 1, 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to stock based compensation and, in accordance with the recommendations, they have been applied only to awards granted on or after the date of adoption. The new standard requires stock-based payments and direct awards to non-employees, and direct awards, stock appreciation rights and similar awards to employees, that are to be settled in cash or equity instruments to be accounted for using the intrinsic value or fair value based method of accounting, depending on the circumstances.

The Company does not award the type of stock-based compensation that requires fair value treatment and does not recognize compensation expense when stock options are granted to directors or employees. The Company is required to disclose net earnings (and earnings per share) on a pro forma basis as if the fair value based accounting method had been applied to its type of stock-based compensation for awards granted after January 1, 2002.

n) Financial instruments

The Company has financial instruments which include cash and cash equivalents, amounts receivable, mortgages, notes and investments, bank indebtedness, accounts payable and accrued liabilities, debt on real estate and convertible debentures.

The carrying value of cash and cash equivalents, amounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximates fair value due to the short-term nature of these instruments.

The fair values of the mortgages, notes and investments and debt on real estate are estimated using discounted cash flow analysis based on current borrowing rates available for instruments with similar terms and maturities. The estimated fair value of these financial instruments, other than for impaired financial assets, does not include costs that would be incurred to exchange or settle these instruments, as the Company does not intend to extinguish these instruments prior to maturity.

STERLING CENTRECORP INC.
Notes to the Consolidated Financial Statements
December 31, 2002 and 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Financial instruments (continued)

The fair value of the convertible debentures is estimated using discounted cash flow analysis based on borrowing rates currently available for conventional debt with similar terms and maturities. The convertible debentures have been segregated into their debt and equity components. The financial liability component, representing the present value of the future interest payments, is classified as debt. The remaining component, representing the value ascribed to both the holders' option to convert the principal balance into common shares and the Company's right to settle the principal amount of the instrument by the issuance of common shares, is classified in shareholders' equity as the equity component of convertible debentures. These components were initially recorded at their respective fair values at the dates the convertible debentures were originally issued.

The Company's use of derivative financial instruments is limited to its proportionate share of one interest rate swap, entered into by one of the Company's joint ventures. The fair value of the interest rate swap is estimated as the discounted unrealized gain or loss calculated based on the market price at period end, which generally reflects the estimated amount that would be payable to terminate the contract at the balance sheet date.

o) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. ACQUISITIONS

- a) In October 2002, the Company acquired a 50 percent interest in Northwest Crossing Shopping Center, located in Dallas, Texas. The acquisition was completed through a joint venture with a privately held investment company which acquired the remaining 50 percent interest in the property. The purchase price for Northwest Crossing Shopping Center was US\$2.35 million, which was satisfied by the assumption of US\$1.7 million of first mortgage financing, and the balance through funds advanced by the Company and its partner.
- b) In September 2002, the Company acquired a 50 percent joint venture interest in Hazeldean Mall, a 187,000 square foot enclosed shopping center located in Kanata, Ontario for cash of \$604,000 and financing of \$6.2 million for its proportionate share of the venture. In addition the Company issued a \$2.5 million promissory note to the joint venture.

STERLING CENTRECORP INC.

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

3. ACQUISITIONS (continued)

- c) In August 2002, the Company made an investment (0.56 percent interest) in a joint venture formed to develop Lakeview Village Shopping Center ("Lakeview") located in Gilbert, Arizona for US\$36,666. Lakeview will be a 110,000 square foot grocery anchored shopping center to be developed on a 17-acre site and to be managed and leased by the Company. Certain of the other joint venture participants, holding an aggregate 55.44 percent interest, are also officers and/or directors of the Company or its subsidiaries.
- d) On March 8, 2002, a wholly owned subsidiary of the Company acquired 35.72 acres of land in Colorado Springs, Colorado for a total cost of US\$5.0 million. Included in this amount is an estimated US\$600,000 commitment to construct a road, which will provide access to the property. Simultaneous with the purchase, the Company sold 20.68 acres to a third party for US\$4.5 million, resulting in the recognition of US\$1 million in income. The balance of the land will be developed to include 23,000 square feet of small shop space and three out-parcels. The out-parcels may be sold or land-leased.
- e) In November 2001, the Company, through a controlled subsidiary, acquired a 50 percent joint venture interest, resulting in a 25 percent economic interest, in Abacoa Plaza, a 62,270 square foot shopping center located in Jupiter, Florida, from an entity related to an officer and director of the Company for cash of US\$2,359,031 and the assumption of debt of US\$3,276,260. As part of the transaction, the Company borrowed US\$1,800,000, of which US\$675,000 was borrowed from certain officers and directors of the Company. An 18.75 percent minority interest in the Company's subsidiary is held by certain officers and directors of the Company. This transaction was recorded at the exchange amount agreed to between the parties, which represents fair value based on the amount paid by unrelated joint venture partners in the project.

The Company's entitlement to the net operating cash flows of the joint venture, as defined in the joint venture agreement, is subordinated to the other joint venturers until such venturers have received payment of an 8 percent annual cumulative preferred return on their respective capital contributions to the joint venture.

- f) In October 2001, the Company acquired a 25 percent joint venture interest in Northmil Plaza, a 90,322 square foot shopping center located in Palm Beach Gardens, Florida, from an entity related to an officer and director of the Company for cash of US\$414,081 and the assumption of debt of US\$1,538,140. As part of the transaction, the Company borrowed US\$315,000. This transaction was recorded at the exchange amount agreed to between the parties, which represents fair value based on the amount paid by an unrelated joint venture partner in the project.

The Company's entitlement to the net operating cash flows of the joint venture, as defined in the joint venture agreement, is subordinated to the other joint venturers, until such venturers have received payment of a 9 percent annual cumulative preferred return on their capital contributions to the joint venture.

STERLING CENTRECORP INC.

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

3. ACQUISITIONS (continued)

- g) In July 2001, a Settlement Agreement and Release was entered into with the unit holders of the Preferred Equity Limited Partnership and the Preferred Equity (U.S.) Limited Partnership (collectively the "PELP Limited Partnerships"), of which a wholly-owned subsidiary of the Company is the general partner, whereby the Company acquired all of the outstanding units in the PELP Limited Partnerships, which in turn own a portfolio of five hotels, in return for the issuance of a five year, US\$5.4 million promissory note, bearing interest at 5 percent per annum with recourse limited to the hotel assets, and the issuance of 900,000 stock purchase warrants (see Note 14(c)); 720,000 of which were issued with an exercise price of \$1.50 per share and the remaining 180,000 at \$2.00 per share.

The investment in the PELP Limited Partnerships has been recorded using the cost method on the basis that they are temporary investments as the Company intends to dispose of its investment as soon as economically prudent.

- h) In June 2001, the Company made an investment (0.56 percent interest) in a joint venture formed to develop Ventana Lakes Village Shopping Center ("Ventana") located in Peoria, Arizona for US\$7,111. Ventana will be a 110,000 square foot grocery anchored shopping center to be developed on a 14-acre site and to be managed and leased by the Company. It is anticipated that there will be further equity investments required of approximately US\$28,444, to be made over the next 18 months. Certain of the other joint venture participants, holding an aggregate 55.44 percent interest, are also officers and/or directors of the Company or its subsidiaries.
- i) In June 2001, the Company acquired a 50 percent joint venture interest in Westside Market, a 55,000 square foot shopping center located in Fort Worth, Texas for cash of US\$228,902 and the assumption of debt of US\$2,019,363, including US\$379,363 due to the Company's joint venture partner in the project.
- j) In June 2001, the Company acquired a 25 percent joint venture interest in Westland Promenade, a 326,000 square foot shopping center in Hialeah, Florida for US\$6,162,271. As part of the transaction, the Company borrowed US\$875,000 from one of its joint venture partners in the project and assumed its proportionate share of an existing mortgage in the amount of US\$5,287,270, both of which are included in notes payable at year-end.
- k) In June 2001, the Company acquired, from a partnership in which North American Shopping Center Corp. ("NASC") held a 50 percent interest, two retail development sites comprising an aggregate of approximately 17.8 acres, located in Houston and Dallas, Texas. In connection with the acquisition, the Company paid US\$1.2 million in cash, assumed existing debt of US\$1.6 million and satisfied the balance of US\$2.8 million by way of vendor take back notes, bearing interest at 10 percent per annum, payable quarterly, and due 18 months from the date of closing. NASC is an entity affiliated with an officer and director of the Company. The Company has also entered into a participation agreement that will entitle NASC to a 50 percent participation in the net profits or revenues generated by the acquired interests after the Company receives a 10 percent per annum cumulative return on amounts invested in these projects. In 2002, both sites were refinanced and the above-noted acquisition debt was extinguished.

STERLING CENTRECOP INC.

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

3. ACQUISITIONS (continued)

- l) On March 30, 2001, the Company acquired, at a cost equal to the seller's carrying amount, all of the interests held by North American Acquisition Group, LLP ("North American"), an entity owned by a director and officer of the Company, in 13 Options to purchase real estate development properties and opportunities in the United States. In connection with such acquisition, the Company issued a non-interest bearing promissory note in the amount of US\$960,000 (the "Promissory Note") to fully finance the purchase. In consideration of this acquisition, the Company and North American have also entered into a participation agreement, made as of the 30th day of March, 2001, that will entitle North American to a 50 percent participation in the net profits generated by interests acquired pursuant to the Options after the Company recovers all amounts invested in the projects, including the original cost of the Options, and receives a 10 percent per annum cumulative return thereon. The indebtedness represented by the Promissory Note is repayable in three equal installments of US\$320,000 each. The final payment of US\$320,000 was extended for a period of one year, bearing interest at 10 percent per annum, and was repaid on October 16, 2002.

As of December 31, 2001, nine of the Options had expired and one was sold for net proceeds of US\$109,260. During the year, one Option was exercised in the acquisition of the Colorado Springs land (see Note 3(d)). Deposits on the remaining two Options, having a carrying amount of US\$15,000, were refunded to the Company in July 2002.

- (m) On March 8, 2001, the Company entered into a Share Exchange Agreement (the Agreement") to acquire all of the outstanding shares in Centrecorp Management Services, Inc. and all of the direct and indirect interests in Centrecorp Management Services Partnership (collectively "Centrecorp") held by John W.S. Preston, JMSC Holdings, Inc., Robert S. Green, RSG Corp. and Berbank Realty Management. The transaction closed on March 8, 2001. The purchase price of the shares acquired was valued at \$10.0 million and was satisfied by the issuance of 12.0 million common shares. The issued shares are subject to escrow and surrender arrangements and are to be released annually over 4 years. The Company has accounted for this acquisition using the purchase method. The purchase price has been allocated to the assets acquired and the liabilities assumed based on their estimated fair values. The results of operations of Centrecorp are included in the Company's consolidated statement of operations from the date of acquisition.

Cash	\$ 990,650
Amounts receivable	6,081
Other assets-management contracts and long-term investments	9,843,062
Capital assets	831,154
Goodwill	3,925,181
Future income tax liabilities	(3,925,181)
Liabilities assumed	(1,626,947)
Share capital issued	\$ 10,044,000

As of December 31, 2001, the goodwill arising on the Centrecorp acquisition was written off in its entirety.

STERLING CENTRECORP INC.
Notes to the Consolidated Financial Statements
December 31, 2002 and 2001

4. REVENUE PRODUCING PROPERTY

	2002		2001	
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Land	\$ 9,160,950	\$ -	\$ 9,160,950	\$ 7,495,945
Buildings, improvements and leasing costs	26,274,202	698,052	25,576,150	17,354,794
Property under development	1,180,594	-	1,180,594	46,586
	<u>\$ 36,615,746</u>	<u>\$ 698,052</u>	<u>\$ 35,917,694</u>	<u>\$ 24,897,325</u>

5. DEVELOPMENT PROPERTY

	2002	2001
Inventory	\$ 11,646,705	\$ 14,770,272
Property to be developed	10,979,749	7,020,025
	<u>\$ 22,626,454</u>	<u>\$ 21,790,297</u>

6. MORTGAGES, NOTES AND INVESTMENTS

	2002	2001
Mortgages receivable	\$ 5,444,721	\$ 5,584,066
Promissory notes receivable	4,572,370	2,853,567
Investments	8,223,272	16,720,438
	<u>\$ 18,240,363</u>	<u>\$ 25,158,071</u>

Mortgages receivable include both conventional and participating mortgages and bear interest at rates from 12 percent to 13 percent with a weighted average yield of 12.9 percent at December 31, 2002 (2001 - 13.2 percent). The Company's participating mortgages also generate asset management fees and profit participation. These amounts are generally secured by second charges on real property and supported by personal or corporate guarantees, assignment of ownership units and, where applicable, contain specific provisions for monthly or minimum annual installments. All mortgages receivable are classified as current. The carrying value of mortgages receivable approximates the estimated fair value at December 31, 2002 and 2001.

STERLING CENTRECORP INC.

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

6. MORTGAGES, NOTES AND INVESTMENTS (continued)

Promissory notes receivable bear interest at rates from 5.4 percent to 20 percent with a weighted average yield of 9.2 percent at December 31, 2002 (2001 - 3.4 percent). These amounts are generally secured by second charges on real property and supported by personal or corporate guarantees, assignment of ownership units and, where applicable, contain certain specific provisions for monthly or minimum annual installments. A total of \$3.3 million (2001 - \$1.6 million) have contractual repayment terms extending beyond one year and up to September 2007. The carrying value of promissory notes receivable approximates the estimated fair value at December 31, 2002 and 2001.

Investments consist of limited partnership interests and investments in limited liability companies. In accordance with the terms of the individual agreements, the Company earns priority returns, asset management fees and profit participation.

Mortgages, notes and investments are net of specific provisions totaling \$33.6 million (2001 - \$37.6 million) and a general provision of \$190,000 (2001 - \$190,000).

7. MANAGEMENT CONTRACTS

	2002	2001
Management contracts	\$ 11,509,653	\$ 11,576,495
Less accumulated amortization	(6,620,623)	(3,244,463)
	<u>\$ 4,889,030</u>	<u>\$ 8,332,032</u>

8. PREPAIDS AND OTHER ASSETS

	2002	2001
Prepaid expenses	\$ 284,009	\$ 228,005
Deferred financing costs	828,553	181,012
Deposits and options	535,584	647,266
Other assets	817,788	993,197
	<u>\$ 2,465,934</u>	<u>\$ 2,049,480</u>

STERLING CENTRECORP INC.

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

9. CAPITAL ASSETS

	2002			2001
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Furniture, fixtures and equipment	\$ 1,375,381	\$ 1,103,353	\$ 272,028	\$ 317,785
Buildings and improvements	1,569,281	324,782	1,244,499	1,240,037
Land	374,365	-	374,365	377,446
Software	921,809	715,122	206,687	372,611
Automobile	24,364	17,261	7,103	10,026
	\$ 4,265,200	\$ 2,160,518	\$2,104,682	\$ 2,317,905

10. DEBT ON REAL ESTATE

	Weighted Average Interest Rate (%)		Maturities	2002	2001
	2002	2001			
Fixed rate debt	8.75	8.82	2003-2031	\$ 38,084,858	\$ 26,496,010
Non-interest bearing debt	-	-	2002	-	2,424,734
Floating rate debt	4.43	4.54	2003-2005	26,697,845	19,579,021
				\$ 64,782,703	\$ 48,499,765

As of December 31, 2002 US\$36.9 million (2001 - US\$29.8 million) is included in debt on real estate.

On July 17, 2002, the Company completed the issuance of US\$11.0 million of secured redeemable debentures and 11.0 million common share purchase warrants (See Note 14 (c)). The debentures bear interest at 9 percent and mature on the sixth anniversary of the closing date, redeemable prior to maturity in whole at any time or in part from time to time at the option of the Company at par plus accrued and unpaid interest up to the date of redemption. On October 31, 2002, the Company redeemed US\$1.0 million of the secured redeemable debentures, plus interest, in conjunction with the sale of one of the secured assets, as required under the Trust Indenture. The remaining debentures are secured by revenue producing properties and other assets having a net book value of \$22.9 million at December 31, 2002. Certain officers and directors of the Company have purchased and own either directly or indirectly debentures in the above series totaling US\$2.18 million. As of December 31, 2002, \$14.2 million is included in fixed rate debt for these debentures.

STERLING CENTRECORP INC.
Notes to the Consolidated Financial Statements
December 31, 2002 and 2001

10. DEBT ON REAL ESTATE (continued)

	<u>Unsecured Debt</u>	<u>Secured Debt</u>	<u>Total</u>
2003	\$ 5,454,193	\$ 16,293,652	\$ 21,747,845
2004	-	6,257,514	6,257,514
2005	568,656	5,971,750	6,540,406
2006	-	184,048	184,048
2007	-	14,215,900	14,215,900
Thereafter	-	15,836,990	15,836,990
	<u>\$ 6,022,849</u>	<u>\$ 58,759,854</u>	<u>\$ 64,782,703</u>

At December 31, 2002, the Company had \$1.16 million (2001 - \$5.0 million) of notes and mortgages payable to officers and directors of the Company.

The recorded value of the Company's notes and mortgages payable approximates the estimated fair value at December 31, 2002 and 2001.

One of the Company's joint ventures has entered into an interest rate swap, whereby the joint venture has fixed its financing at 7.39 percent. The unamortized notional amount of the swap at December 31, 2002 is US\$4.6 million (2001 - US\$4.6 million), of which the Company's proportionate share is 25 percent. Interest expense for the year ended December 31, 2002 includes net swap costs of US\$45,000 (2001 - US\$49,000), representing the Company's proportionate share of the swap costs. The notional amount is being amortized on a monthly basis over a period of 27 years. The swap agreement expires in 2004.

The estimated fair value of the interest rate swap at December 31, 2002 is a loss of US\$288,000 of which the Company's proportionate share is approximately US\$72,000 (2001 - US\$50,000).

11. CONVERTIBLE DEBENTURES

The Company originally issued \$25,920,000 of unsecured convertible subordinated debentures, bearing interest at 7.25 percent, which mature December 31, 2004 and are convertible at \$7.25 per common share at the holder's option at any time up to and including December 30, 2004. These debentures are redeemable by the Company from February 28, 2001 up to and including December 31, 2002 at par plus accrued and unpaid interest, provided the market price of the shares is at least \$9.0625. After December 31, 2002, the convertible debentures will be redeemable by the Company at any time at par plus accrued and unpaid interest up to the date of redemption. The Company may, at its option, elect to satisfy the obligation to repay the principal amount of the convertible debentures upon maturity or redemption by issuing common shares at 95 percent of the then market price of the shares.

STERLING CENTRECORP INC.

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

11. CONVERTIBLE DEBENTURES (continued)

The liability component of the convertible debentures of \$3,358,106 (2001 - \$4,832,978) represents the present value of future interest payments due under the terms of the convertible debenture by applying a discount rate of 9 percent. The recorded value of the liability component exceeds its fair value at December 31, 2002 by approximately \$223,000 (2001 - \$440,000).

The equity component of \$25,231,582 (2001 - \$22,911,233), after expenses, net of future income taxes, of \$274,340 (2001 - \$274,340), represents the value ascribed to both the holder's option to convert the principal amount of the convertible debenture into common shares and the Company's right to settle the principal amount of the convertible debenture in cash or common shares.

Interest expense is determined by applying the discount rate of 9 percent against the outstanding liability component. The equity component of the debentures is being accreted to the maturity value through periodic charges to retained earnings, net of tax.

During the year ended December 31, 2001, the Company repurchased \$101,000 principal amount of its issued convertible debentures on the open market at the prevailing market price, pursuant to a normal course issuer bid which expired on August 29, 2002. The purchased debentures were subsequently cancelled.

At December 31, 2002 certain officers and directors of the Company own either directly or indirectly \$1.7 million (2001 - \$1.0 million) of the convertible debentures, which were purchased on the open market.

12. BANK INDEBTEDNESS

At December 31, 2002, the Company had no lines of credit.

13. NON-CONTROLLING INTEREST

Sterling Penndevco - Sterling Penndevco, LLC ("Penndevco") was formed to develop CVS Pharmacy locations pursuant to Preferred Development Agreements between Penndevco and CVS Pharmacy, Inc. Penndevco receives compensation related to the development of these properties. The Company holds a 51 percent interest in Penndevco. In October 2002, the Company entered into an agreement to dissolve Penndevco. It is anticipated that this will be completed by the second quarter of 2003.

SC-Abacoa Plaza Associates, LLLP - SC-Abacoa Plaza Associates, LLLP ("SC-Abacoa") was formed to hold a 50 percent joint venture interest in Abacoa Plaza, a 62,270 square foot shopping center located in Jupiter, Florida. The Company holds a 50 percent interest in SC-Abacoa.

Sterling USA, Inc. - 416,375 Class B Preferred Shares of Sterling USA, Inc., a wholly owned subsidiary of the Company, were issued to an unconsolidated investee, for par value of US\$1 per share. The shares are subject to redemption at the option of the Board of Directors or upon the liquidation or sale of substantially all of the assets of certain subsidiaries of Sterling USA, Inc. The Preferred Shares are non-voting and are entitled to receive dividends if, as and when declared by the Board of Directors.

STERLING CENTRECORP INC.

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

14. SHAREHOLDERS' EQUITY

	2002	2001
Share capital	\$ 74,929,961	\$ 76,518,506
Contributed surplus	1,398,989	569,307
Stock purchase warrants, Series I and Series II	359,985	359,985
Stock purchase warrants, Series 1A	795,050	-
Stock purchase warrants, Series 1B	769,550	-
Convertible debentures – equity component (Note 11)	25,231,582	22,911,233
Cumulative currency translation adjustment	9,632,655	9,887,837
Deficit	(83,014,172)	(83,382,280)
	<u>\$ 30,103,600</u>	<u>\$ 26,864,588</u>

Share capital

- a) Authorized: Unlimited common and special shares without nominal or par value.

Common shares:

	2002		2001	
	Number of Shares	Amount	Number of Shares	Amount
Issued, beginning of year	36,534,784	\$76,518,506	24,534,784	\$66,474,506
Issued in conjunction with Centrecorp acquisition	-	-	12,000,000	10,044,000
Normal course repurchase	(758,800)	(1,588,545)	-	-
Issued, end of year	<u>35,775,984</u>	<u>\$74,929,961</u>	<u>36,534,784</u>	<u>\$76,518,506</u>

During 2002, the Company filed a normal course issuer bid which entitled the Company to acquire up to 1.8 million common shares, representing approximately 5 percent of its issued common shares, between May 30, 2002 and May 29, 2003. During the year, the Company repurchased 758,800 of its issued common shares at an average share price of \$1.00. The difference between the amount paid and the stated value of the repurchased shares has been credited to contributed surplus.

STERLING CENTRECORP INC.
Notes to the Consolidated Financial Statements
December 31, 2002 and 2001

14. SHAREHOLDERS' EQUITY (continued)

Share capital (continued)

b) *Stock options*

The Company has two fixed stock option plans. Under the 1991 incentive Stock Option Plan, as amended, the Company may grant options to directors, officers and employees and also to any other person or company engaged to provide ongoing management or consulting services to the Company for up to 6,940,000 shares of common stock. Under the 1998 inducement Stock Option Plan, the Company may grant options to management personnel as an inducement to become affiliated with the Company for up to 1,000,000 shares of common stock. Under both plans, the exercise price on the date of the grant is no lower than the closing price for the Company's common shares traded on The Toronto Stock Exchange on the last business day immediately preceding the date of the grant of the option. Options are granted on dates as determined by management. Options generally vest over a 5 year period at 20 percent at the end of the first year and 20 percent per year thereafter.

During the year ended December 31, 2002, the Company granted 2,385,005 stock options, having an approximate aggregate fair value of \$673,000, of which \$267,000 would be the pro forma compensation cost in the determination of pro forma net income of \$2,421,457 (pro forma basic and diluted loss per share of \$0.00).

The fair value of the stock options granted in 2002 has been estimated using the Black Scholes model for pricing options. The following weighted average assumptions were used; expected dividend yield of nil; risk free interest rate of 5 percent per annum, expected share price volatility of 50 percent and expected life of 5 years.

A summary of the status of the Company's two fixed Stock Option Plans as at December 31, 2002 and 2001, and changes during the years ended on those dates, is presented below:

Employee/Director Plan #1	2002		2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	4,574,120	\$ 1.85	3,972,120	\$ 2.39
Granted	2,385,005	1.48	1,325,000	1.19
Forfeited	(373,000)	2.15	(723,000)	3.59
Outstanding, end of year	6,586,125	\$ 1.70	4,574,120	\$ 1.85
Options exercisable at year-end	2,088,772	\$ 2.16	1,327,560	\$ 2.60

STERLING CENTRECORP INC.

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

14. SHAREHOLDERS' EQUITY (continued)

b) Stock options (continued)

Inducement Option Plan Plan #2	2002		2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	400,000	\$ 1.50	400,000	\$ 1.50
Granted or forfeited	-	-	-	-
Outstanding, end of year	400,000	\$ 1.50	400,000	\$ 1.50
Options exercisable at year-end	320,000	\$ 1.50	240,000	\$ 1.50

The following table summarizes information about fixed stock options outstanding as at December 31, 2002:

Range of Exercise Price	Number Outstanding as at December 31	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable as at December 31	Weighted- Average Exercise Price
<u>Plan #1</u>					
Up to \$0.99	258,005	2.28	\$ 0.95	102,800	\$ 0.96
1.00 to 1.99	5,463,000	3.06	1.38	1,316,400	1.40
2.00 to 2.99	60,000	0.49	2.90	54,000	2.90
3.00 to 3.99	475,000	0.55	3.44	395,000	3.44
4.00 to 4.99	115,000	2.24	4.50	80,500	4.50
5.00 to 5.99	215,120	2.99	5.06	140,072	5.06
Total	6,586,125	1.94	\$ 1.70	2,088,772	\$ 2.16
<u>Plan #2</u>					
\$1.00 to \$1.99	400,000	0.79	\$ 1.50	320,000	\$ 1.50

STERLING CENTRECORP INC.
Notes to the Consolidated Financial Statements
December 31, 2002 and 2001

14. SHAREHOLDERS' EQUITY (continued)

c) *Stock warrants*

In connection with the purchase of all the outstanding limited partnership units of the PELP Limited Partnerships (see Note 3(g)), the Company issued 900,000 stock purchase warrants on July 1, 2001; 720,000 Series I stock purchase warrants exercisable at \$1.50 per share and 180,000 Series II stock purchase warrants exercisable at \$2.00 per share. Each warrant represents the right to purchase one share of the Company's common stock, until the expiration date of June 30, 2006. As of December 31, 2002, no warrants had been exercised.

In connection with the issuance of an aggregate of US\$11.0 million secured redeemable debentures (see Note 10), the Company issued 5.5 million Series 1A stock purchase warrants on April 5, 2002 and 5.5 million Series 1B stock purchase warrants on July 17, 2002; exercisable at \$1.50 per share. Each warrant represents the right to purchase one share of the Company's common stock, until the expiration date of April 5, 2007. As of December 31, 2002, no warrants had been exercised.

15. REAL ESTATE SERVICES REVENUE

	2002	2001
Property management	\$ 9,986,650	\$ 8,383,384
Leasing	3,540,748	3,621,418
Development and construction	2,105,545	1,970,410
Asset management	1,003,423	1,172,420
Other	37,513	298,618
	<u>\$ 16,673,879</u>	<u>\$ 15,446,250</u>

16. INTEREST AND INVESTMENT INCOME

	2002	2001
Interest income	\$ 2,074,304	\$ 2,706,362
Loss from equity-accounted investments	(233,433)	(2,019,066)
Investment income	4,371,852	825,702
Other income	15,795	264,885
	<u>\$ 6,228,518</u>	<u>\$ 1,777,883</u>

17. INTEREST EXPENSE

During the year, the Company capitalized interest of US\$633,000 (2001 - US\$495,000) to development property in respect of its on-going development projects.

STERLING CENTRECORP INC.
Notes to the Consolidated Financial Statements
December 31, 2002 and 2001

18. JOINT VENTURES

The following amounts, which are included in the consolidated financial statements, represent the Company's proportionate share in joint ventures.

	2002	2001
Assets	\$ 50,891,688	\$ 41,548,726
Liabilities	44,015,589	35,604,431
Revenue	14,170,718	9,309,156
Expense	12,477,090	7,954,354
Cash flow from (applied to)		
Operating activities	4,979,994	535,301
Investing activities	(10,569,230)	(5,295,452)
Financing activities	5,149,712	5,210,972

The Company is contingently liable for the obligations of its partners in certain joint ventures. The assets of the joint ventures are available for the purpose of satisfying such obligations.

19. RELATED PARTY TRANSACTIONS

In addition to disclosure elsewhere in the notes to the consolidated financial statements, the Company had the following transactions with related parties, which have been recorded at the exchange amount agreed to between the parties, except where noted otherwise:

- a) Incurred interest expenses of approximately \$60,476 (2001 - \$104,108) on notes and debentures owing to parties that were or are related to directors and officers of the Company.
- b) Received fees for services performed of approximately \$1,028,936 (2001 - \$1,059,482) from companies with directors and officers in common.
- c) Received management fees of approximately \$1.2 million (2001 - \$1.5 million) from subsidiaries accounted for as temporary investments, of which \$401,000 (2001 - \$277,000, net of allowances) remained in accounts receivable at year-end.
- d) Incurred rent expense of approximately \$394,450 (2001 - \$541,546) to a company with an officer and director in common.
- e) The Company paid US\$125,000 (2001 - US\$125,000) to a company controlled by the former chairman of the Company under a five-year consulting agreement. Additionally, the Company paid US\$91,780 (2001 - US\$100,000) in interest to the same party related to a US\$1.0 million note bearing interest at 10 percent due January 20, 2003, issued as part of an employment settlement package. This note was paid off in full subsequent to year end.

STERLING CENTRECORP INC.
Notes to the Consolidated Financial Statements
December 31, 2002 and 2001

19. RELATED PARTY TRANSACTIONS (continued)

- f) In 2001, the Company assigned its interest in a note receivable from Live Oak Reserve, a land development project located in Oviedo, Florida to two individuals who are officers of the Company, for its carrying value of US\$1.2 million. The Company reserved the right to repurchase the note back at an amount equal to the outstanding principal and interest as of the date of the exercise of such right. During 2002, the Company exercised its right and repurchased the note for its carrying value of US\$1.2 million.

During 2002, the Company acquired an additional 5.2 percent ownership in Live Oak Reserve representing a total indirect ownership interest of 23.6 percent. The Company accounts for this investment using the equity method.

In conjunction with this transaction, the Company received a fee of US\$400,000 and funded its proportionate share of a loan totaling US\$1.6 million to the project. The Company has a 40 percent interest in both the mortgage and interest payments. Certain of the other participants, continuing to hold an aggregate 35.4 percent interest, are also officers and/or directors or other related parties of the Company or its subsidiaries.

- g) In June 2001, the Company entered into an agreement to advance any and all sums payable by an entity controlled by an officer and director of the Company in connection with a commercial land development project located in Palm Beach County, Florida (the "Project") in which the entity holds a 25 percent ownership interest. In consideration thereof, the Company will be entitled to repayment of all sums advanced pursuant to this agreement, together with accrued interest thereon at a rate of 10 percent per annum, plus a 12.5 percent participation in the net cash flow of the Project. As at December 31, 2002 US\$767,602 (2001 – Nil) had been advanced under this agreement.

20. INCOME TAXES

- a) The Company's effective income tax rate is derived as follows:

	2002	2001
Combined basic Canadian federal and provincial income tax rates	38.62%	41.74%
Income (loss) before income taxes	\$ 1,980,880	\$ (10,914,567)
Income tax expense (recovery) at statutory rates	765,016	(4,555,740)
Foreign income and losses taxed at different rates	71,401	56,081
Tax benefits of losses and future income tax assets (recorded) not recorded	(1,691,541)	1,688,696
Expenses not deductible for tax	65,681	1,333,240
Other	81,866	69,344
	\$ (707,577)	\$ (1,408,379)

STERLING CENTRECORP INC.

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

20. INCOME TAXES (continued)

- b) Temporary differences and tax loss carryforwards which give rise to future income tax assets and liabilities are as follows:

	2002	2001
Future income tax assets		
Deduction of accruals and provisions	\$ 39,000,000	\$ 40,000,000
Tax loss carryforwards	24,000,000	25,000,000
Valuation allowance	(41,000,000)	(43,000,000)
	<u>\$ 22,000,000</u>	<u>\$ 22,000,000</u>
Future income tax liabilities		
Investments	\$ 22,000,000	\$ 22,000,000
Management contracts	1,152,239	2,108,469
	<u>\$ 23,152,239</u>	<u>\$ 24,108,469</u>
Net future income tax liabilities	<u>\$ 1,152,239</u>	<u>\$ 2,108,469</u>

- c) For Canadian income tax purposes, the Company has available capital losses of approximately \$5.2 million which may be carried forward indefinitely to reduce future capital gains. The Company also has available non-capital losses of approximately \$18.6 million which expire in the period 2004 to 2009.

For US federal income tax purposes, the Company's US subsidiaries have available operating losses of approximately \$49 million which expire in the period 2010 to 2020.

The benefit of these losses has not been recorded in the consolidated financial statements.

21. BASIC AND DILUTED INCOME (LOSS) PER SHARE

	2002	2001
Net income (loss)	\$ 2,688,457	\$ (9,506,188)
Accretion on equity component of convertible debentures, net of tax of \$Nil (2001 - \$Nil)	(2,320,349)	(2,053,808)
Net income (loss) attributable to common shareholders	<u>\$ 368,108</u>	<u>\$ (11,559,996)</u>

Basic per share information is calculated based on the weighted average number of shares outstanding for the year. The calculation of per share information on a diluted basis considers the potential exercise of outstanding share purchase options, warrants and convertible debentures to the extent that each warrant is dilutive. The following table provides a reconciliation between the weighted average number of shares used to calculate basic and diluted income (loss) per share.

STERLING CENTRECORP INC.

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

21. BASIC AND DILUTED INCOME (LOSS) PER SHARE (continued)

	2002	2001
Weighted average number of shares	36,445,370	34,397,798
Effect of dilutive share options	3,618	-
Weighted average number of shares diluted	36,448,988	34,397,798

The diluted per share information for the year ended December 31, 2002 does not reflect the exercise of 11,900,000 (2001 - 900,000) outstanding warrants, 6,556,125 (2001 - 4,775,120) issued options, or any of the convertible debentures, as their conversion would be anti-dilutive.

22. CONTINGENCIES AND COMMITMENTS

- a) At December 31, 2002, the Company's temporary investments, certain of which are limited partnerships for which subsidiaries of the Company act as the general partner, had mortgages payable totaling US\$54.4 million (2001 - US\$65 million). The assets of these temporary investments are available to satisfy these liabilities.
- b) In September 1997, the Company was notified by the United States Environmental Protection Agency ("EPA") that the Company is potentially responsible for remediation costs at the Lava Cap Mine National Priorities List site in Nevada City, California. On November 26, 2001 the State of California Environmental Protection Agency made a similar claim. In 1952, the Keystone Copper Corporation ("Keystone"), a now dissolved California Corporation which was a wholly owned subsidiary of the Company, acquired the Lava Cap gold and silver mine from the former operator. Mining operations had ceased on the site in 1943, and Keystone did not restart these operations. In 1983, the property was sold to the Franco-Nevada Mining Company, but the property was quit claimed back to Keystone in 1986. Keystone sold the property for good in 1987. The EPA has completed a removal action at the site and is now conducting a remedial investigation and feasibility study regarding upcoming clean-up activities. It is the Company's view that the contamination is not attributable to the Company because it never owned or operated the site, as Keystone was a separate corporation from the Company. In addition, the Company believes that there are questions regarding the EPA's jurisdiction over the Company, a Canadian corporation. On October 22, 2001 the Company fully responded to all of the inquiries made by the EPA but has not received any further communication from the EPA in regard to these responses. The EPA has not notified the Company of the specific amount claimed. If the EPA decides to press its claims for reimbursement against the Company, resolution of these jurisdictional questions will require litigation first. Because liability can be litigated only after jurisdiction has been established, Management believes it would be premature to set aside any reserves at this time, and will revisit the issue when more is known about the ability and intention of the EPA to pursue the Company in the United States.
- c) Under the terms of employment agreements with three senior officers, the Company is required to provide, as compensation, a minimum of US\$4.7 million in the event of termination due to a change in control or termination without cause.

STERLING CENTRECORP INC.

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

22. CONTINGENCIES AND COMMITMENTS (continued)

- d) In prior years, the Company raised funds through the issuance of debentures to third party investors. The proceeds of issue of these debentures, which have been segregated from the other assets of the Company, are invested in mortgage security pools (the "Pools") which are subject to the terms of trust indentures. The debentures are non-recourse to the Company and the debenture holders' only recourse is to the assets comprising the Pools. In accordance with the trust indentures, administration fees and 10% of the net revenue of the Pools are payable to the Company. Fees due for 2002, totaling \$7,368 (2001 - \$9,797) have been forgiven by the Company.

The Company has provided indemnities to the Pools to guarantee realizable values of three specific mortgages. The Company has previously provided for the maximum potential loss under these indemnifications totaling \$1.64 million (2001 - \$1.7 million), which is included in accounts payable and accrued liabilities.

23. SEGMENTED INFORMATION

The Company does not maintain separate financial information for components of its operations that is evaluated regularly by the chief operating decision makers in allocating resources and assessing performance.

The Company's revenues from external clients and its real estate assets are allocated between Canada and the United States as follows:

	2002			2001		
	Canada	United States	Total	Canada	United States	Total
Revenues						
Real estate services	\$ 9,834,018	\$ 6,839,861	\$ 16,673,879	\$ 9,440,395	\$ 6,005,855	\$ 15,446,250
Development	-	14,104,885	14,104,885	-	7,739,174	7,739,174
Rental	446,271	4,047,247	4,493,518	-	1,299,488	1,299,488
Interest and investment income	139,182	6,089,336	6,228,518	513,806	1,264,077	1,777,883
Total	\$10,419,471	\$ 31,081,329	\$ 41,500,800	\$ 9,954,201	\$ 16,308,594	\$ 26,262,795

	2002			2001		
	Canada	United States	Total	Canada	United States	Total
Real estate assets						
Revenue producing property	\$ 8,464,062	\$ 27,453,632	\$ 35,917,694	\$ -	\$ 24,897,325	\$ 24,897,325
Development property	-	22,626,454	22,626,454	-	21,790,297	21,790,297
Mortgages, notes and investments	1,399,504	16,840,859	18,240,363	752,768	24,405,303	25,158,071
Management contracts	2,735,651	2,153,379	4,889,030	5,005,902	3,326,130	8,332,032
Total	\$12,599,217	\$ 69,074,324	\$ 81,673,541	\$ 5,758,670	\$ 74,419,055	\$ 80,177,725

23. SEGMENTED INFORMATION (continued)

Revenues and real estate assets are attributed to countries based on the location of the real estate to which they relate. Interest and investment income, and mortgages, notes and investments are attributed based on the location of the security for the underlying instruments.

During the year, the Company earned \$7.7 million (2001 - \$6.2 million) of real estate services revenue from one client, representing 46 percent (2001 - 40 percent) of the Company's consolidated real estate services revenue.

24. RISK MANAGEMENT

In the normal course of its business, the Company is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

a) Interest rate risk

The Company attempts to structure its financings so as to stagger the maturities of its debt, thereby mitigating its exposure to interest rate fluctuations.

From time to time, the Company may enter into interest rate swap contracts to modify the interest rate profile of its outstanding debt without an exchange of the underlying principal amount.

b) Credit risk

Risks arise in the event that borrowers default on the repayment of their mortgages or notes to the Company. The Company endeavours to ensure that adequate security has been provided in support of notes and mortgages.

Credit risk also arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Company mitigates the risk of credit loss by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. Thorough credit assessments are conducted in respect of all new leasing.

c) Currency risk

The Company is exposed to currency risk as it relates to its self-sustaining U.S. subsidiaries. Changes in the applicable exchange rate may result in a decrease or increase in income or expense.

The Company mitigates this risk by matching foreign currency debt with foreign currency assets.

STERLING CENTRECORP INC.

Notes to the Consolidated Financial Statements

December 31, 2002 and 2001

25. SUBSEQUENT EVENTS

Subsequent to December 31, 2002 the Company repurchased 28,000 of its issued common shares at an average share price of \$0.81, pursuant to a normal course issuer bid expiring on May 29, 2003 (see Note 14(a)). The purchased shares have been cancelled.

Subsequent to December 31, 2002 the Company also repurchased \$100,000 principal amount of its issued 7.25 percent unsecured convertible subordinated debentures at an average price of \$70 per debenture, pursuant to a normal course issuer bid expiring on November 25, 2003. The purchased debentures have been cancelled.

26. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year's presentation, with no effect on consolidated results of operation.

CORPORATE INFORMATION

Annual & Special Meeting

Shareholders are invited to attend the Annual & Special Meeting of Sterling Centrecorp Inc. to be held on May 29, 2003 at 2:00 p.m. at the offices of:

Fogler Rubinoff LLP
Suite 4400
Royal Trust Tower
Toronto Dominion Centre
Toronto, Ontario M5K 1G8

Listing of Shares

Common Shares and Debentures of Sterling Centrecorp Inc. are listed for trading on The Toronto Stock Exchange:

Stock Symbols: Common Shares: **SCF**
Debentures: **SCF.DB**

Capitalization

At December 31, 2002 there were 35,775,884 Common Shares outstanding.

Transfer Agent - Common Shares

Equity Transfer Services Inc.
Suite 420, 120 Adelaide Street West
Toronto, Ontario M5H 4C3

Transfer Agent - Debentures

CIBC Mellon Trust Company
Suite 1600-1066 W. Hastings Street
Vancouver, B.C. V6E 3X1

Executive Offices:

Suite One
2851 John Street
Markham, Ontario L3R 5R7
Tel: (905) 477-9200
Fax: (905) 477-7390

Suite 305
One N. Clematis Street
West Palm Beach, Florida 33401
Tel: (561) 835-1810
Fax: (561) 833-4118

Registered Office

Suite 703
123 Edward Street
Toronto, Ontario M5G 1E2
Tel: (416) 593-4093
Fax: (416) 593-0656

Auditors

Deloitte & Touche, LLP
Suite 1400, BCE Place
181 Bay Street
Toronto, Ontario M5J 2V1

Investor Relations

Highlights of the Annual Report are also available on our web site at:

www.sterlingcentrecorp.com

or contacting:

Mansfield Communications Inc.
(416) 599-0024

STERLING CENTRECORP INC.

2851 JOHN STREET, SUITE ONE, MARKHAM, ONTARIO L3R 5R7